

# The ACM Journal

## LOVE STINKS

Nipa and I recently celebrated our 17-year anniversary. It has been adventure-filled with lots of ups and downs, excitement, a few setbacks, but mostly activities centered around our children. We don't seem to take a lot of time for ourselves, and it is easy to fall out of step with each other. We are frequently advised to carve out time for just the two of us, and we do try, but life gets busy.

However, recently we had an opportunity to spend a little quality time together.

We had skunks living near our house. We had seen them several times. It was a mom and three little ones. They largely didn't cause any trouble, so we established an uneasy détente. But after we noticed a few chickens disappear, it was time to take action.

I set out a have-a-heart trap one evening and baited it with cat food. I woke up the next morning and could see through the darkness that something had taken the bait. When I went out to inspect, I found our barn cat, Bob, stuck in the trap. I set her free and reset the trap, this time without any food.

The next morning when I woke up, it was rainy and miserable out. I thought about the trap and was thankful that I wouldn't have to deal with any critters that morning since there was no bait. However, when

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## PORTFOLIO REVIEW

The third quarter was mediocre in terms of investment returns. Large-cap stocks in the U.S. were up 1.7%, but most other stocks lost money. Bonds actually outpaced stocks in the third quarter, with a gain of 2.3%. Real estate was the bigger winner, earning 7.3% as investors sought out more stable segments of the stock market. See full investment returns for the quarter and year-to-date in the nearby chart.

Despite an uninspiring quarter, all asset classes have performed well so far year-to-date. Stocks are generally up double digits, and even bonds have earned 8.5% so far this year.

Given the level of turmoil in the world, gains of this magnitude are surprising. With Brexit, impeachment hearings in the U.S., protests in Hong Kong, and an on-going trade dispute with China, it is remarkable that stocks have performed as well as they have. Even so, all eyes seem to be on the economy now. Volatility has returned to the stock market, particularly on days when economic data releases are too low, signaling an economic slowdown, or too high, which could mean the Fed will stop easing short-term interest rates.

Economic activity does seem to be cooling, particularly among corporations. But the consumer segment of the economy is a powerful one, and low unemployment augurs well for the current expansion to

continue at least for a while. And, that is likely why stocks have been so resilient. The S&P 500 hit a new record high in the quarter, and even with recent weakness, is down less than 3% from the high as of this writing.

That doesn't mean that things are status quo. Market leadership seems to be shifting. The high-flying technology companies seem to be giving way to firms with more stability. Stocks with strong price momentum underperformed the overall stock market in the third quarter, while stocks with low volatility in their returns outperformed significantly. That may be why real estate companies have had such a strong run.

Small-cap value stocks are another sector with strong performance in the third quarter. After a very long and disappointing run of poor performance, small-cap value stocks earned over 3% more than the overall small-cap market. It is too early to know if this is a blip or the beginning of a trend, but the far lower valuations of "value" stocks versus "growth" stocks could be an indication that the tide is turning, as it did after the technology bubble burst in 2000. In the decade of the 2000s, small-cap value stocks returned 8.3% annualized compared with a loss of 4% for large-cap growth stocks.

International stocks have continued to struggle, particularly in the emerging markets. Economies from Germany to China are slowing down, which has

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far year-to-date. Stocks

## FIRM NEWS

We are excited to announce that Steve Shefflin is our new Chief Investment Officer. Steve is a 25-year veteran in the investment management industry, previously with Federated Investors and Clover Capital Management. His most recent focus has been on quantitative research, specifically on building factor-based portfolios similar to how we invest our clients' money. Steve also has been a trader and portfolio manager, which brings an important holistic perspective for anyone in charge of hundreds of millions of dollars. A native to the Rochester area, Steve and Mark have been acquainted for the better part of 20 years. He's a great fit for our firm and brings some new analytical tools to the table. Stop in and meet him some time. *continued on page 4*

## PORTFOLIO REVIEW *continued from page 1*

weighed on stock markets. Despite their underperformance in recent years, international stocks have historically outperformed U.S. stocks half the time, making them an important diversifier for stock portfolios.

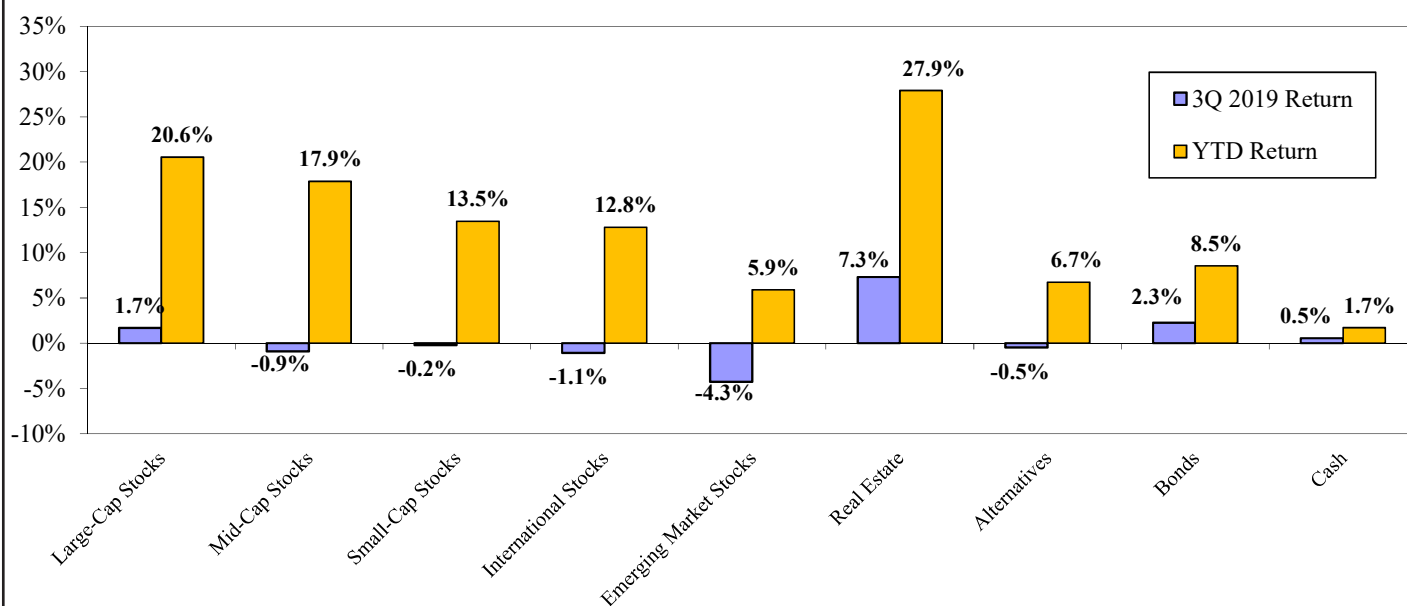
It was shocking to see bonds perform so well, particularly when interest rates were already so low. However, cuts to short-term interest rates by the Fed and a drop in longer-term yields during the quarter from 2% to 1.5% sent bond prices up significantly. Concerns over economic weakness could keep demand for bonds strong, but rates can't stay this low forever.

Alternative investments are showing signs of life. Managed futures are up almost 5% year-to-date, alternative lending continue to do well, and

so far, reinsurance has avoided any nasty surprises during the first half of hurricane season. Private real estate has also been strong.

Despite an anemic third quarter, investment returns have continued their strong run so far this year. The volatility that picked up in the third quarter is probably here to stay, at least through next year's election. It would not be surprising to see further signs of economic slowdown, and possibly even a recession in the not-too-distant future. Recessions, however, can be mild and short-lived, and should not be a reason to disrupt a long-term investment strategy.

### THIRD QUARTER 2019 ASSET CLASS RETURNS



Large-cap, mid-cap, and small-cap stocks are represented by the S&P 500, 400, and 600 indices. International and emerging market stocks are represented by MSCI indices. Real estate is the Dow Jones Real Estate index. Alternatives are represented by the HFRI Fund Weighted Composite index. Bonds are the Barclays Aggregate Bond Index. Cash is the yield on the 30-day T-Bill.

## CHRIS' CORNER: YEAR END PLANNING

As the days grow short and foliage begins to change, our thoughts naturally are drawn to year-end financial planning.

Maxing out contributions to 401(k) or IRA accounts (2019 limit is \$19,000, plus \$6,000 catch-up), making sure your beneficiaries are up to date on your accounts, and satisfying your Required Minimum Distributions (RMDs) if you are over age 70.5, are popular items to consider. However, a few lesser known topics are also worthy of consideration:

### **Fund Non-Deductible IRAs and Convert to Roth**

Although your income may be too high to make a direct contribution to a Roth IRA (the income limits are \$137,000 for single folks and \$203,000 for married couples), you can indirectly fund a Roth IRA by making a non-deductible contribution to a traditional IRA and immediately converting it to a Roth. Even though you'll be using after-tax dollars to fund the Roth, the benefit is long-term, tax-free growth on these assets.

### **Roth IRAs for the Kiddos**

If your children or grandchildren have earned income, you can fund a custodial Roth IRA for them. Just make sure to stay under the \$15,000 annual limit for tax-free gifts. Again, this is a good strategy for tax-efficient, long-term growth.

### **Roth IRA Conversion**

As we've noted, a Roth IRA can provide some significant income tax advantages over time for you and your beneficiaries. If you have a large traditional IRA balance, it may make sense to convert some or all of that to a

Roth IRA. Any converted amount will be subject to ordinary income taxes, so it doesn't always make sense. But, if you retired early, haven't yet started to draw Social Security and your RMDs, or otherwise are in a low-income tax bracket, there may be an opportunity to do a conversion. There are lots of variables with this one, so it's likely worth a conversation before acting.

### **Qualified Charitable Distribution (QCD) from your IRA**

For those who are charitably inclined and required to take a Required Minimum Distribution from an IRA, consider a QCD. This is a non-taxable distribution from your IRA directly to a qualified charity. The distribution still counts towards your RMD but won't get added to your gross income. The distribution is limited to \$100,000 per year. Side note for those of us who have TD & Schwab accounts: you can have a checkbook attached to your IRA account and write checks directly from your account to charities.

### **Donor Advised Funds (DAF)**

Most of us can no longer itemize deductions on our tax return, including

charitable contributions. You can get around this by creating a DAF and bundling several years' worth of gifting into a single year if it gets you over that itemization threshold. The DAF can then be used to fulfill your gifts over time. For extra bang, use appreciated securities to fund the DAF and never realize the capital gains.

Other ideas include using your \$15,000 (\$30,000 per couple) annual gifting exclusion, funding 529 college savings plans for the New York State tax deduction and/or "superfunding" to reduce the value of your estate, and maxing out your capital gains tax brackets. Other good practices: taking a look at your credit report, updating your major passwords, having access to a HELOC for quick liquidity, and shopping for better rates on your savings accounts.

**Dinner party fun fact:** Since 2004, captains of whaling boats have been able to deduct up to \$10,000 per year for repairs, equipment purchases, and other expenses associated with the business. Whaling, however, has been banned in the U.S. Since 1971.

## WHAT IS ACM?

Armbruster Capital Management, Inc. (ACM) is a boutique wealth management firm serving high-net-worth individual and institutional clients. The firm's innovative "Passive Quant" investment approach incorporates cutting edge financial research to help control risk and pursue superior returns. ACM uses index funds, exchange-traded funds (ETFs), and other investment vehicles to build portfolios designed to reduce investment-related costs and taxes in order to maximize net returns.

Located in Pittsford, New York, ACM is employee owned, independent, and minimizes conflicts of interest. Acting as a fiduciary, the firm creates truly customized investment portfolios tailored to each client's unique objectives.

**LOVE STINKS** *continued from page 1*

I looked outside, I did see a couple glowing eyes staring back at me. I had caught one of the little skunks.

Nipa and I had a couple hours of driving kids around, getting them ready for school and on the bus before we could deal with our captive. That gave me time to consider the options. The easiest was to introduce the little stinker to my friends Smith and Wesson. However, I read that skunks almost always release their scent when they are shot. Also, the inner Buddhist in me was reticent to take such drastic action. So, I concocted a Plan B in my head. This is where Nipa, reluctantly, comes in.

I put on my best skunk battle gear, including tall boots, old jeans, a raincoat with a hood, and some landscaping gloves. I figured a skunk wouldn't spray something it couldn't see, so I had Nipa distract the skunk by standing near the cage in one direction and I would throw a tarp over from another direction. Nipa did this while filming the whole endeavor. I suggested she use the photo of me in an article for her fashion blog, but she was not amused.

After the cage was covered, I wrapped it up with the tarp and lifted it onto the back of my truck. It was too much to resist the urge to make a joke about a skunk in the trunk, which elicited

further eye rolling from my bride. We then had a romantic drive through the nearby park to find just the right habitat in which to release our little friend.

This promised to be the tricky part, as I had to get down close to the trap to unlock the door and lift it out of the way. When I have done this previously with raccoons, they bolt for the door before I can even get it locked into place, which would leave a skunk plenty of time to look back and spray me in the face. My plan, if this happened, was to strip down in the park, leave my clothes there, and drive home in my boxer shorts. If it was really bad, I would have Nipa drive and I would ride in the bed of the truck.

Fortunately, it was not to be. The skunk was reluctant to leave the trap, so I had plenty of time to maneuver. He did end up leaving eventually, after a bit of lifting one end of the cage and shaking. Hopefully he is enjoying his new home. Now I just need to catch the rest of his family.

The best part was that the missus and I got to spend some quality time together. Folks say I'm not a romantic, but I can think of no animal more romantic than the skunk. Just ask Pepe Le Pew.

**FIRM NEWS** *continued from page 2*

We're also proud that Colby Feane was recently named as a 2019 Forty Under 40 honoree by the Rochester Business Journal. Colby's accomplishments are many, and not just because he is younger, better looking, and stronger than the rest of us. He is a CFA charter holder, spent more than a decade on Wall Street, and worked for Manning & Napier in Rochester. Colby also devotes a considerable amount of time to not-for-profits in the area, serving on the boards of the YMCA of Greater Rochester, the MCC Foundation, and the Statesmen Athletic Association of Hobart and William Smith Colleges. We can think of no better candidate for this award.

While not technically third-quarter news, there were exciting announcements recently by both Charles Schwab and TD Ameritrade. Both firms have adopted zero trading commissions for stock and ETF trades. Trade commissions were already quite low, but we like to pinch pennies wherever we can. These moves effectively remove the custodial fees paid by clients. Mutual fund expense ratios and our management fees are the remaining layers of fees, both of which are well below industry norms.

We wrote previously about the Flourish cash management program, which allows investors to earn returns of 1.9% on cash reserves. Flourish has just expanded the program to include corporate accounts. That means that not-for-profits, S-Corps, C-Corps, LLCs, and other business entities can now enjoy the same higher yields on cash as individuals. The program has daily liquidity and FDIC protection on up to \$1.5 million for corporate investors. If you're interested, just let us know and we'll send you an invitation to participate.



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